EDISON Scale research report - Update

FinTech Group

Banking joint venture with Austrian Post

FinTech Group (FTG) has announced a landmark 50/50 banking joint venture with Austrian Post (VIE: POST, market cap c €2.4bn) where FTG is supplying the technology while Post offers its established infrastructure. The deal creates a new growth arm for FTG that is expected to break even in 2022 and could act as a blueprint for similar deals in other countries. Meanwhile, H1 results were in line with expectations as margins benefited from strong growth in broking volumes. If FTG can meet its objective of generating €35m net income from the joint venture with Post by 2025, it would provide significant upside in the shares for the cost of the 7% dilution in the capital increase that has funded the deal.

H1 results: In line, transactions jump 20%

H1 results were broadly in line with management's expectations. Revenue rose by 18% to €58.5m while EBITDA jumped 42% to €18.4m. The growth was driven by the core Financial Services (FIN) segment, which saw its revenues rise 26% to €52.3m as its EBITDA margin soared by 620bp to 28.9%, reflecting operational gearing as transactions increase. The Technologies (TECH) segment dipped as the division continues to undergo heavy investment in new functionality.

A free ride to Austria

Both FTG and Post are investing €112.5m in the new joint venture. FTG is funding its investment with a €35m share placement with Post and transferring its interest in its Austrian flatex.at business at a €25m valuation. The remaining €52.5m is payable over 2020 to 2023 and is effectively fully funded as the joint venture will pay FTG at least €10m per year for the IT infrastructure. The joint venture has the use of Post's 433 post office branches as well as 1,351 postal partners; this infrastructure would have been impossible for FTG to establish on its own. Following the collapse of the arrangement with its previous financial services partner, BAWAG, Post conducted a 'beauty contest' for a new partner and stressed it wanted to hold an equity interest. After an extensive search, it selected FTG partly because it was the only company that could provide banking and technology.

Valuation: Attractive relative to peer group

The shares trade on 16.2x FY19e consensus earnings. We continue to believe this rating looks very attractive relative to its peer group (see page 4), given FTG's favourable growth profile along with improving margins, and with further significant upside potential from the banking joint venture with Post.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	95.0	30.6	0.73	0.0	39.0	N/A
12/17	107.0	32.1	1.00	0.0	28.5	N/A
12/18e	124.8	45.3	1.47	0.0	19.4	N/A
12/19e	141.3	54.7	1.76	0.0	16.2	N/A

Source: Bloomberg

Financial services

25 September 2018

Price	**€28.50**
Market cap	**€499m**

Share price graph

Share details

Code	FTK
Listing	Scale
Shares in issue	17.5m

Business description

FinTech Group is an integrated online brokerage business. It is divided into two business areas: a technology business and a financial services business that includes a bank and a brokerage business.

Bull

- Attractively valued against brokerage peer group.
- Favourable regulatory environment within Europe.
- Positioned to benefit from eventual upswing in interest rate cycle.

Bear

- Focused on the German and Austrian markets with limited geographical exposure.
- The company does not pay a dividend as the focus is on investing for growth.
- New joint venture will stretch management time in the near term.

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Edison profile page

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H1 results: In line with management's expectations

Revenue rose 18% to €58.5m while EBITDA jumped by 42% to €18.4m, as the EBITDA margin jumped by 520bp to 31.5%. The growth was driven by the FIN segment, which saw its revenues rise 26% to €52.3m. This reflected the strong growth in transaction volumes, and the operational gearing fed through to the bottom line with the FIN division's EBITDA margin surging 620bp to 28.9%. The new partnership with Goldman Sachs is going well; FTG has nine product partners; the top five are Morgan Stanley, BNP Paribas, Goldman Sachs, UBS and Vontobel. The TECH segment dipped as the division continues to undergo heavy investment in the core banking system FTG:CBS and this will continue in H2.

Exhibit 1: H118 y-o-y analysis

				H117				H118
(€000s)	FIN	TECH	Other*	Total	FIN	TECH	Other*	Total
Revenues	41,414	17,844	(9,696)	49,562	52,256	16,378	(10,136)	58,498
Raw materials and consumables used	(12,660)	(3,315)	1,925	(14,050)	(14,060)	(1,834)	909	(14,985)
Personnel expenses	(7,464)	(6,465)	2,512	(11,417)	(8,578)	(6,205)	2,554	(12,229)
Other administrative expenses	(11,874)	(4,479)	5,259	(11,094)	(14,495)	(5,061)	6,673	(12,883)
EBITDA	9,416	3,584		13,001	15,123	3,277		18,402
Margins	22.7%	20.1%		26.2%	28.9%	20.0%		31.5%
Depreciation and amortization				(2,590)				(3,527)
EBIT				10,411				14,874
Financial results				(674)				(957)
EBT				9,737				13,917
Income tax expense				(2,699)				(4,442)
Earnings from continuing activities				7,038				9,475
Earnings from discontinued ops				(88)				(94)
Consolidated net profit				6,950				9,381

Source: FinTech Group. Note: *Other represents inter-divisional; TECH provides IT to the FIN segment.

The KPI data indicate that Q2 was a quieter period that Q1, with c 2.9m transactions versus c 3.7m in Q1.This was reflected in the transactions per customer, which fell from c 56 in Q1 to 48 for the whole of H1. Customer assets continued to grow nicely, but the primary focus for FTG is on driving transaction volumes as that is the biggest driver of profits.

Exhibit 2: Key performance indicators

	FY12	FY13	FY14	FY15	FY16	FY17	H117	H118	Change H/H %
Transactions executed	6,625,418	5,486,715	6,023,210	10,143,219	10,462,477	11,272,496	5,505,237	6,628,374	20.4
Number of retail customers	118,170	126,111	134,403	176,600	212,040	253,825	234,874	274,830	17.0
Transactions per customer per year	56.07	43.51	44.81	57.44	49.34	44.41	46.88	48.24	2.9
Customer assets under management (€m)	2,810	3,527	4,043	5,770	10,855	11,794	11,238	12,120	7.8
of which: securities account volume	2,272	2,795	3,236	4,784	9,512	10,910	10,310	11,166	8.3
of which: deposits account volume	538	732	807	986	1343	884	929	954	2.7

Source: FinTech Group

Gross commission income jumped 23% to €45.3m, helped by the introduction of new brokerage products, which are mainly exchange traded products. After deducting commission expenses, net commission income rose 20% to €33.0m. Gross interest income jumped 28% as the group's credit book continued to grow at pace, mainly relating to margin trading (60–70%) and factoring (25–30%). The credit book stood at c €195m at end June and yields c 4.5%. Meanwhile, provision of IT services dipped as the focus there remains on heavy investment.

Exhibit 3: Revenue by type (gross basis)

(€000s)	H117	H118	Change (%)
Commission income	36,711	45,303	23.4
Provision of IT services	7,164	6,337	(11.5)
Interest income	4,258	5,453	28.1
Other operating income	1,429	1,416	(0.9)
Total	49,562	58,509	18.1

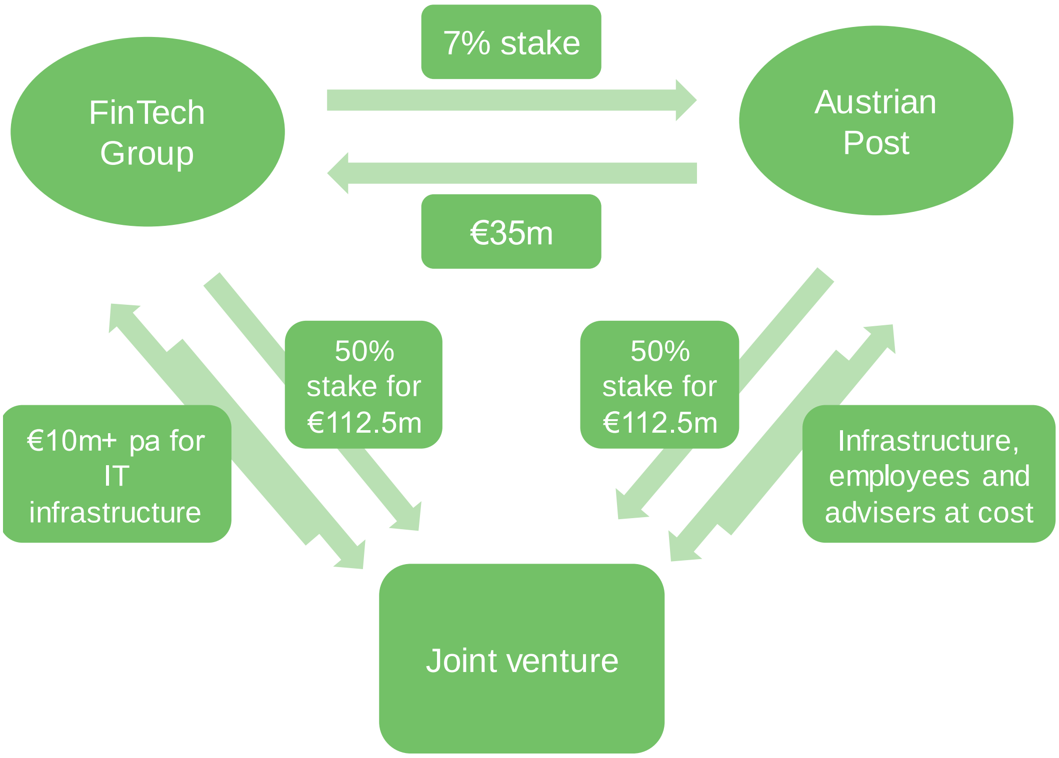
Source: FinTech Group

Landmark deal with Austrian Post (Österreichische Post)

BAWAG floated on the Vienna stock exchange in October 2017, raising €1.9bn in Austria's biggest ever listing. Prior to its IPO, BAWAG announced it planned to give notice to Post on their partnership, instead choosing to operate its own network of branches. BAWAG had been paying Post an annual fee (we understand around €60m) for the use of Austrian Post's infrastructure. The arrangement has been highly profitable for BAWAG (VIE: BG, market cap €4.1bn), generating revenues of €224.6m in FY17, for 40% profit margins (34% in FY16), and representing 43% of its total pre-tax profits in FY17.

Following the termination, Post conducted a 'beauty contest' for a new financial services partner. Post operates a highly profitable traditional post office business. However, this is a mature business, threatened by email, and management wants to diversify the group's income sources. Consequently, it wanted to hold an equity interest in a new financial services venture. Post selected FTG because FTG was the only one that could provide both banking and technology. The BAWAG relationship ends in December 2019, while the new joint venture is expected to begin trading in July 2019, pending the granting of the relevant banking licence. Given that FTG has operated a banking business in Austria for almost a decade and has had to file data with Austrian regulators, it believes this process will be a formality and a licence would be expected early next year. There will then be a pilot phase in c 50 branches, with basic banking functions.

Exhibit 4: Deal structure



Source: FinTech Group

Both FTG and Post are investing €112.5m in the new joint venture so that €225m equity will be provided by 2025. FTG is funding its investment with a €35m share placement with Post (1,225,761 new shares at c €28.55) and transferring its interest in flatex.at for a €25m valuation. The remaining €52.5m is payable over 2020 to 2023 and is effectively fully funded as the joint venture will pay FTG at least €10m per year for the IT infrastructure including the core banking system and operating IT system along with services. The amount could rise, depending on the level of services that are contracted. The joint venture has the use of Post's 433 post office branches as well as 1,351 postal partners. Post enjoys c 60m customer contacts per year, and after BAWAG stops offering its products in Post's c 1,750 branches and postal partners, many of its customers will have a strong interest in becoming a customer of the new joint venture, especially in rural areas, since BAWAG has fewer than 100 of its own branches. FTG believes it can achieve revenues of €300 per customer and projects adding 250k customers in 2021 and 400k in 2025. It forecasts the joint venture will break even by 2022 and generate net profit of €35m in 2025.

Valuation: Attractive relative to peer group

The shares trade on 16.2x FY19e Bloomberg consensus earnings. This looks very attractive relative to peers; of its main European quoted peers, only Binckbank trades on a lower rating, but has been struggling with weaker margins and a slower growth profile. The new joint venture with Post adds extra upside potential, BAWAG's €4.1bn valuation suggests there could be significant upside because 43% of its profits came from the Post arrangement. However, we note the joint venture will also have to compete with BAWAG.

Exhibit 5: Peer group comparison

	Share price	Market cap		Revenue				Operating profit		Operating margin		PE (x)	PE (x)
	local curr	local curr	Curr	Year 0	Year 1	Year 2	CAGR	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
FinTech Group	**28.50**	**499**	**EUR**	**107.0**	**124.8**	**141.3**	**14.9%**	**39.6**	**47.8**	**31.7%**	**33.8%**	**19.4**	**16.2**
Global B2C peers													
Avanza	413.4	12,515	SEK	965.0	1049.6	1187.6	10.9%	437.0	540.0	41.6%	45.5%	32.1	27.0
Binckbank	5.45	368	EUR	149.0	147.0	150.0	0.3%	37.0	38.3	25.1%	25.5%	12.1	13.5
Etrade	55.86	14,505	USD	2359.1	2859.1	3074.7	14.2%	1346.8	1453.5	47.1%	47.3%	15.6	13.9
FinecoBank	11.41	6,942	EUR	580.2	640.6	705.1	10.2%	390.0	441.0	60.9%	62.5%	28.0	24.0
Interactive Brokers *	58.84	24,437	USD	1609.6	1892.0	2208.0	17.1%	1723.0	1987.0	91.1%	90.0%	27.0	23.3
Swissquote	70.3	1,078	CHF	187.5	217.8	240.2	13.2%	58.8	71.4	27.0%	29.7%	21.3	17.9
Medians excl FinTech Group							**12.1%**			**44.4%**	**46.4%**	**24.2**	**20.6**
European B2B peers													
CREALOGIX	142	197	CHF	87.1	110.0	121.0	17.9%	8.7	12.3	7.9%	10.2%	34.7	23.3
First Derivatives	4020	1,044	GBp	179.6	212.7	238.8	15.3%	30.7	33.9	14.4%	14.2%	50.6	45.5
GFT	12.58	331	EUR	414.7	418.0	439.3	2.9%	26.1	32.4	6.2%	7.4%	16.1	13.2
Gresham Tech	162	110	GBp	21.7	24.6	27.6	12.8%	4.5	5.5	18.3%	19.9%	25.3	21.6
Sopra Steria	139	2,856	EUR	3823.8	4093.3	4296.5	6.0%	284.5	337.0	7.0%	7.8%	13.3	11.4
Temenos	159.5	11,301	CHF	728.8	843.4	949.8	14.2%	238.5	286.0	28.3%	30.1%	55.8	48.8
Medians excl FinTech Group							**13.5%**			**11.2%**	**12.2%**	**30.0**	**22.4**

Source: Bloomberg. Note: *EBITDA and EBITDA margins are shown in place of operating profits/margins. Priced at 20 September 2018.